Finance and sustainability crash course - session 2

Wednesday, April 01, 2015

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### Speaker

Founder of GAIA values - appreiating nature's assets

Has been managing - "natural value initiative"

Collaborating with "Fauna & flora" in Cambridge

"Sustainabile seafood finance" tool - introduction video

*FI: financial institutitions*

# Ecosystem change: Financial risk & opportunity

## Drivers of change in corporate behavior

**Environmental change:**

*The Texas drought* caused GAP to cut its profit forecasts by 22%

Increasing raw material prices for cotton made *H&M* change its cotton source (??? correct note ???)

Markets for compensation - biodiversity off-setting (*The Biodiversity Consultancy*)

*Clean Waer Act* - requires wetland mitigation - total market value on the order of billions of US dollars

*Unilever* certified tea - increased sales w/ 12 %

\*Alfa Laval\*\* - "new technology beefs up share price"

Paper with KPMG "Identifying natural capital risk and maternality" directed at CFOs

## Financial services sector

### Institutional investors

* Are emerging economies safe? -- case of HSBC report reporting on stress on China's natural capital and implications for growth scenarios
* **Universal owners** - very big institutional investors - national banks, national pension funds etc. etc.
* How can *universal owners respond* - universal owners have interest in whole system rather than short-term performance of individual market actors. (Achim Steiner, UNEP Executive Director)
  + Universal owners should avoid systemic risk.
* Climate risk
* Water risk
  + Rio Tinto, Ceres database - "A framework for 21st century water risk management"
  + Water database
* PRI - Principles for Responsible Investment (45 trillion signed up to principles)
  + 2011 Engagement with retailers around sustainable seafod
  + 2013 Engagement with retailers around palm oil production
* Should I stay or should I go
  + Divestment
  + Etichal councial
  + In 2013 Swedish AP funds divest (sell) FREEPORT MCMORAN COPPER & GOLD stocks based on implication in serious environmental damage in contravention of the UN CBD.
* New products and services
  + dNb gLOBAL håLLBAR
  + Sumitomo Trust BankK - Biodiversity SRI funds
* Regulatory driver

Lack of reporting standards pose a significant barrier to gerater incorporation of natural capital - call for sector based reporting standards

### Private investors

* *Consumer awareness tools* may be a facilitating driver of change
* *Venture capitalists*
  + Carl Harl - environmental capitalists
  + Sustainable Technologies Fund
* *Impact investment*
  + Investment to try and have a positive impact
  + Often local initiatives
  + *Oryx ipact investments* as an example

## 

### Banking

* *Corportate finance sector policies*
  + Lending money for investors
  + *Case* Deutsche Bank was helping China Tuna with an IPO to raise USD 150 mil
  + The IPO was based on
    - incorrect info to investors
    - ecosystem limits disregarded
  + IPO was suspended
  + Discussion - how did they get the data?
* *Eco-friendly loans*
* *Project finance criteria*
  + International Finance Corporation (privae sector arm of World Bank Group)
  + As of 2012 IFc requires projects to maintain ecosystem services benefits and to identify those services that the project is directly dependent upon.
  + 78 banks with 70% of global project finance to emerging markets follow the IFC pPerformance Standards
  + Clashes of interest between - shareholder interests (short-term) - company (longer-term) - lenders such as banks (???)
  + Natural capital as last step consideration *versus* natural capital as a strategic driver
  + Also clashes in interests between short-term and longer-term investors
* *Insurance*
  + Climate change may results in higher home issurances

### Bond market

* GREEN BONDS - Mr Green Bond @ SEB
  + In 2013 the total cumulative issurance rose to 19 bill USD
  + In 2014 SEB issed green bonds at a total value of 3.8 bill USD
  + Case ørebro municipality, stockholm län, gothenburg city
  + The green bond market has not increased the size of the environmental projects
    - Instead, the green bond market bundles together all the green projects inorder to diversify the portfolio of lenders
  + Key features
    - Transparency
    - Reporting
    - Third party verification
  + Question
    - Additionality?
  + Green bonds also usually has a slightly lower interest rate
* Government bonds implicated
  + E-risk report by the Global Footprint Network
  + Ecological footprint balance affects import-export balance and the abiility to generate income to pay interests
* Financing direct positive impact

## 

### Financial accounts

* Valuing negative (and positive) externalities - shadow pricing - to ultimately incorporate in business balance sheets.
* Case example - PUMA

## 

## RESOURCES

* **Natural capital declaration**
* 40+ financial institutions collaborate to - increase awareness - develop methodologies - build consensus for private sector accounting and integrated reporting
* **Corporate assessments**
  + Natural capital coalition
* **Corportate reportting & disclosure**

## 

## CONCLUSION

### How can FIs contribute

* A long list (get slide)

## 

## DISUCSSION

* Identifying iniatives of new paradigm and old paradigm
  + Initiatives of new paradigm often start at small scale (e.g. investing for impact)
  + When they try to scale up, maybe they get incorporated in old paradigm

## 

### References

None